Before The

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

REPLY COMMENTS OF THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES ON RULES RELATING TO RURAL HIGH-COST UNIVERSAL SERVICE SUPPORT

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I. SUMMARY

It was recently announced that, absent Congressional action, the universal service fund contribution factor could rise to 12.6% for the first quarter of 2005, an astonishing 42% increase in a single quarter. Fortunately, Congress acted. This should serve, however, as a clear warning. At this point, it is incumbent on the Federal Communications Commission to take dramatic steps to contain the growth in the universal service fund. It is equally important, however, for the Commission to bring long-term stability to the fund, by rationalizing the mechanisms for high-cost support. Support is supposed to be sufficient to meet the universal service goals of the 1996 Telecommunications Act; it should however, ***be no more than*** **sufficient in order to not overburden the customers who pay the support.**

One key way to accomplish long-term stability for the fund is to increase the number of carriers whose universal service support is based on forward-looking costs. Basing support on forward-looking costs -- and combining study areas -- ensures that support is targeted to those areas and those companies where, without high-cost support, rural rates and services would not be reasonably comparable to urban rates, and gives appropriate incentives for efficiency.

Many rural carriers -- large and small -- attack the use of a forward-looking cost model to determine high-cost universal service support. By and large, this criticism is based on calculations and comparisons that lump all rural carriers together.

In response to this criticism, NASUCA refines its proposal, and now proposes that larger rural carriers with 100,000 or more access lines should be transitioned to a support system based on forward-looking costs over the next five years. These large rural carriers have much more in common with the smaller non-rural carriers that currently base support on forward-looking costs, using the FCC's Synthesis Model, than they do with the smallest rural carriers. This is confirmed by runs of the Synthesis Model that include the rural carriers with 100,000 or more access lines.

In order to run the model, it was necessary to specify the rural companies to which it would apply. This was done using NASUCA's proposal that combines companies under common ownership within a state. This combination was first used to determine which carriers would lose local switching support as a result of exceeding the 50,000 access line threshold for that form of support. Similarly, rural study areas of companies that have non-rural study areas within a state were combined with the non-rural areas and excluded from the rural sample.

Then, as another recognition of the rural difference, carriers with more than 100,000 access lines within a state -- rather than 50,000, as included in NASUCA's original proposal -- were reviewed with a forward-looking cost test, using a modified version of the FCC's Synthesis Model. As seen with the non-rural mechanism, the key issue is not whether a specific area served by a specific company has high costs on a stand-alone basis, but whether that company --

taken as a whole -- needs support in order to ensure that rates in that specific area are reasonably comparable to urban rates.

The list of rural carriers to which the forward-looking cost test would apply consists mostly of affiliates of large national companies. Under NASUCA's proposal, these companies would not be categorically denied high-cost support; rather, they would have support based on forward-looking costs.

The current non-rural mechanism supports 76% of a company's costs that are in excess of two standard deviations of the national average of forward-looking costs for non-rural companies. By contrast, the current rural high-cost mechanism begins to provide support at 115% of the national average cost, progressively increasing to cover 75% of the carrier's costs above the benchmark.

It appears that such a "stair-step" support function, rather than the simple "on/off" function used for non-rural carriers, would be more appropriate for the larger rural carriers that would use forward-looking costs under NASUCA's proposal. The stair-steps should be the same as those used for the current rural mechanism.

In order to further recognize the distinctions between even the larger rural carriers and the non-rural carriers, NASUCA proposes that the benchmark upon which support is based should be the nationwide average of the peer group of larger rural carriers, those with 100,000 or more access lines within a state, instead of the statewide average benchmark used for the non-rural carriers. This avoids rolling the larger rural carriers in with the non-rural state averages; in most states, these rural carriers, with significantly fewer access lines than the non-rural carriers, would see their costs swallowed by the lower-cost urban areas served by the non-rural carriers.

Support for rural carriers -- both large and small -- should be determined by comparing each company's costs to the relevant benchmark.

NASUCA acknowledges that an immediate transition to a forward-looking rural support mechanism may cause a substantial change in support. To mitigate these changes, NASUCA proposes to retain as much as possible of the current rural mechanism while shifting the larger rural carriers to forward-looking costs.

As a further recognition of the rural difference, NASUCA recommends that for these larger rural carriers with more than 50,000 access lines, there should be a five-year transition from the loss of local switching support and/or the move from the current levels support to forward-looking costs. This will give carriers time to adjust to changes in revenue that are the inevitable and necessary result of rationalization of the federal support mechanism.

The results of NASUCA's proposals would be an approximate $200 million decrease in the rural high-cost fund, spread out over five years. The bulk of this change (a net $146 million reduction) results directly from transitioning the larger rural carriers to forward-looking costs. Another $39 million comes from combining study areas of rural carriers such that they no longer meet the 50,000 access line threshold for local switching support. And $15 million comes from merging study areas of rural carriers with the study areas of their non-rural affiliates.

II. INTRODUCTION

The National Association of State Utility Consumer Advocates ("NASUCA")[1] submits these reply comments in response to comments filed on the Public Notice released by the Federal-State Joint Board on Universal Service ("Joint Board") on August 16, 2004.[2] The Public Notice sought comment on issues recently referred to the Joint Board by the Federal Communications Commission ("Commission") relating to the high-cost universal support mechanism for rural carriers, specifically the appropriate rural mechanism to succeed the five-year plan adopted in the *Rural Task Force Order*.[3] The Joint Board invited "public comment on whether these [Commission] rules continue to fulfill their intended purposes, whether modifications are warranted, and if so, how the rules should be modified."[4] More than forty

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[1] NASUCA is a voluntary, national association of 45 consumer advocates in 42 states and the District of Columbia, organized in 1979. NASUCA's members are designated by the laws of their respective states to represent the interests of utility consumers before state and federal regulators and in the courts. *See, e.g.*, Ohio Rev. Code Chapter 4911; 71 Pa. Cons. Stat. Ann. § 309-4(a); Md. Pub. Util. Code Ann. § 2-205(b); Minn. Stat. Ann. Subdiv. 6; D.C. Code Ann. § 34-804(d). Members operate independently from state utility commissions, as advocates primarily for residential ratepayers. Some NASUCA member offices are separately established advocate organizations while others are divisions of larger state agencies (*e.g.*, the state Attorney General's office). Associate and affiliate NASUCA members also serve utility consumers, but have not been created by state law or do not have statewide authority.

[2] FCC 04J-2 (rel. August 16, 2004) ("*Rural High Cost Public Notice*" or "*RHCPN*").

[3] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order, FCC 04-125 (rel. June 28, 2004) ("*Referral Order*"), citing *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244 (2001) ("*Rural Task Force Order*"), as corrected by Errata, CC Docket Nos. 96-45, 00-256 (Acc. Pol. Div. rel. June 1, 2001).

[4] *RHCPN*, ¶ 1.

parties in addition to NASUCA filed initial comments.[5]

Most of the comments can be fairly neatly divided into two categories. The majority of comments were filed by the rural incumbent telephone companies, their associations, and those who provide services to rural telephone companies.[6] These parties, understandably, are most interested in ensuring that the dollars flowing from the federal universal service fund to rural companies do not decrease. Next there are the competitors who compete for service in rural areas.[7] These parties, also understandably, are most interested in ensuring that they have access to the federal universal service funds, and that the incumbents do not have a financial advantage as a result of federal support. The Regional Bell Operating Companies ("RBOCs") SBC and Verizon, other large ILECs (Sprint and SureWest), as well as AT&T, CTIA, Dobson and Nextel, have their own viewpoints and interests. And finally, there is NASUCA, whose membership

[5] Comments were filed by ACS of Alaska, Inc., ACS of Fairbanks, Inc., ACS of the Northland, Inc. and ACS of Anchorage, Inc. ("ACS"); the Alaska Telephone Association ("ATA"); Alexicon Telecommunications Consulting ("Alexicon"); ALLTEL Corporation ("ALLTEL"); AT&T Corp. ("AT&T"); CenturyTel, Inc. ("CenturyTel"); the Coalition of State Telecommunications Associations and Rural Telephone Companies ("CSTA/RTC"); CTIA - The Wireless Association™ ("CTIA"); Dobson Cellular Systems, Inc. ("Dobson"); FairPoint Communications ("FairPoint"); Fred Williamson and Associates, Inc. ("FW&A"); Frontier and Citizens ILECs ("Frontier/Citizens"); General Communication, Inc. ("GCI"); GVNW Consulting, Inc. ("GVNW"); The Home Telephone Company, inc. and PBT Telecom ("Home/PBT"); the ICORE Companies ("ICORE"); Independent Telephone and Telecommunications Alliance ("ITTA"); Interstate Telecom Consulting, Inc. ("ITCI"); Iowa Telecommunications Services, Inc. ("ITS"); John Staurulakis, Inc. ("JSI"); National Exchange Carrier Association, Inc. ("NECA"); National Telecommunications Cooperative Association ("NTCA"); Nextel Communications, Inc. ("Nextel"); Nextel Partners, Inc. ("Nextel Partners"); the Organization for the Protection and Advancement of Small Telephone Companies ("OPASTCO"); Plains Rural Independent Companies ("Plains"); Regulatory Commission of Alaska ("RCA"); Rural Independent Competitive Alliance ("RICA"); Rural Oklahoma Telecommunications Coalition ("ROTC"); Sandwich Isles Communications, Inc. ("SCI"); SBC Communications, Inc. ("SBC"); Sprint Corporation ("Sprint"); SureWest Communications ("SureWest"); TCA, Inc. - Telecom Consulting Associates ("TCA"); TDS Telecommunications Corporation ("TDS"); Texas Statewide Telephone Cooperative, Inc. ("TSTC"); Tri County Telephone Association, Inc. ("TCTA"); United States Telecom Association ("USTA"); Verizon; the Western Telecommunications Alliance ("WTA"); and Western Wireless ("WW").

[6] These include ACS, ATA, Alexicon, ALLTEL, CenturyTel, CSTA/RTC, FairPoint, FW&A, Frontier/Citizens, GVNW, Home/PBT, ICORE, ITTA, ITCI, ITS, JSI, NECA, NTCA, OPASTCO, Plains, RICA, ROTC, SureWest, TCA, TDS, TSTC, TCTA, WTA and USTA. RCA appears to have been the only state regulator filing comments; in its comments RCA comes down squarely on the side of its local telephone companies. It should be noted here that NASUCA's proposal would continue the current support mechanism for Alaska and insular areas. See Section V., supra.

[7] These include CTIA, Dobson, GCI, Nextel Partners, RICA, SCI and WW.

represents both the consumers who are supposed to benefit from the federal universal service fund and those who are required to pay into the fund.

NASUCA proposed to the Joint Board that it recommend to the Commission that the current definition of rural telephone company should be changed for universal service purposes, to more closely match the statutory goal that "rural" rates and services be reasonably comparable to urban rates and services, and that all rates be affordable. NASUCA asserted that a proper definition of "rural" would ensure that only companies with high costs (including small companies with fewer lines over which to spread common costs) would receive federal support.

NASUCA proposed that companies under common ownership within a state should be combined for universal service purposes. For example, that would make the combined companies that had more than 50,000 access lines within a state ineligible for local switching support ("LSS"). NASUCA's proposal would also make rural companies that had a non-rural affiliate within the state non-rural.

NASUCA also recommended that the Joint Board recommend to the Commission that, over the next five years, larger rural carriers should be transitioned to have their high-cost support based on forward-looking economic costs. In response to others' comments, NASUCA has modified its proposal: The forward-looking cost test would be applied only to carriers that had more than 100,000 access lines within a state.

In these reply comments, NASUCA shows the impact of transitioning these larger rural carriers to forward-looking economic costs. By and large, the larger carriers are subsidiaries of large national corporations, such as ALLTEL, CenturyTel, Citizens, Sprint, along with a few others.[8] It appears that changing the basis on which larger rural carriers' costs are determined is more appropriate than changing the definition of rural carrier itself.

NASUCA's comments in response to those that oppose moving rural carriers to forward-looking economic cost are supported by comprehensive detail noticeably absent from others' comments. In Appendix 1, NASUCA provides an itemized list of the 63 carriers which, under its proposal to combine companies under common ownership within a state, have more than 50,000 access lines. In Appendix 2, NASUCA shows the impact on each of the carriers with more than 100,000 access lines of the move to the forward-looking cost mechanism. In Appendix 3, NASUCA lists the carriers that would lose local switching support ("LSS") where combined study areas exceed 50,000 access lines, and the amount of support that would be lost. In Appendix 4, NASUCA shows the current rural study areas in twelve states that would become non-rural if combined with holding company non-rural study areas in the same state, and shows the impact on support. In Appendix 5, NASUCA shows the cumulative impact of these changes. In Appendix 6, NASUCA presents the affidavit of Dr. Trevor R. Roycroft supporting the application of the forward-looking methodology to rural carriers with 100,000 or more access lines.

The combined impact of NASUCA's proposal would reduce rural high-cost loop support and local switching support (currently about $1.732 billion a year[9]) by $200 million, an 11.5% reduction. The reductions come for the largest rural carriers. Carriers with fewer than 50,000 access lines in a state -- the smallest, most rural carriers -- are unaffected by NASUCA's proposals.

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[8] Because this change primarily impacts these carriers, NASUCA has targeted their comments for reply. Their comments do not undercut the need for the changes NASUCA proposes.

[9] USAC 4Q04 Report, Appendix HC01, p. 35 (quarterly amount annualized).

III. MANY OF THE COMMENTS MISTAKE THE PURPOSES OF RURAL HIGH-COST SUPPORT.

TDS lists the aspirational universal service principles set forth in 47 U.S.C. 254(b), and says that "[t]hese principles reflect an overriding goal of ensuring that support mechanisms are adequate to promote access for all Americans to an evolving level of telecommunications services, including advanced services."[10] ITTA goes even further, asserting that "Section 254(b) *requires* that support mechanisms be specific, predictable, and sufficient to preserve and advance universal service."[11] ALLTEL, on the other hand, cautions that tampering with the cost model will mean that customers in rural areas "will not have access to advanced services at rates comparable to those of their urban counterparts."[12]

TDS, ITTA and ALLTEL, like others,[13] ignore the mandatory provision in 254(e) that allows support to be used only for the facilities and services for which the support is intended. And although the list of supported services is "evolving," it has not yet evolved to the point where advanced services are supported.

CenturyTel says that the Commission's rules should be changed to promote rural investment.[14] Promoting rural investment, while a beneficial *effect* of universal service support, was not one of the specific aspirational goals set forth in section 254.

CenturyTel also says that the Joint Board should not recommend action that will harm

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[10] TDS Comments at 3.

[11] ITTA at 11 (citing 47 U.S.C. § 254(b)) (emphasis added).

[12] ALLTEL Comments at 9.

[13] OPASTCO Comments at 7; TCA Comments at 4.

[14] CenturyTel Comments at 19.

rural communities.[15] Neither CenturyTel nor any of the other current recipients of high-cost support have shown that rationalization of support will harm their communities or the consumers residing therein.[16] Clearly, reduction or removal of support will impact the carriers' bottom lines; there is no necessary harm to rural consumers in that. Even if rural carriers' customers see rate increases -- as a result of state-regulated procedures -- that nonetheless result in rates reasonably comparable to urban rates, that will be an acceptable result under the statute.[17]

On the other hand, SBC is clearly in error when it asserts that "Congress intended universal service support to be a safety net, providing support *only* where the cost of providing essential services would make those services unaffordable at market-based rates."[18] SBC would write the concepts of comparability and of "just and reasonable" rates, entirely out of the statute.

IV. THE DEFINITION OF "RURAL" FOR UNIVERSAL SERVICE PURPOSES NEED NOT NECESSARILY BE CHANGED.

The Commission adopted a definition of rural carrier for universal service purposes that mirrored the definition of "rural telephone company" found in Section 153(37) of the Act.[19] The Joint Board and the Commission ask whether this definition should be changed. The majority of commenters oppose such changes.[20]

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[15] Id. at 7.

[16] Concomitantly, of course, under CenturyTel's reasoning, increasing support paid by other consumers would *benefit* rural communities.

[17] As discussed below, NASUCA also proposes a transition mechanism that focuses on end-users' local rates.

[18] SBC Comments at 6 (emphasis added).

[19] See 47 U.S.C. § 153(37); *First Report and Order*, 12 FCC Rcd at 8943-44, ¶ 310.

[20] One exception is SureWest, a non-rural carrier. SureWest Comments at 5.

Sprint attempts to argue that the definition of rural carrier for universal service purposes need not be changed even though "Sprint Florida's operations service a large number of access lines in total,"[21] because "Sprint-Florida does not receive a single dollar of support from any of the federal high-cost funds providing support to rural carriers…."[22] As stated in NASUCA's initial comments, it is clear that a carrier the size of Sprint Florida -- whose "large number" of access lines is *over two million* -- simply does not need the same type of support as a small rural carrier. Neither does United of Indiana (more than 270,000 access lines) or United of Ohio (almost 600,000 access lines), which receive no high-cost support.[23] Yet Sprint Missouri, with its 239,000 access lines, and Sprint Texas, with its 384,000 access lines, both currently receive support based on their embedded costs. Under NASUCA's forward-looking cost proposal, neither of these very large carriers would receive high-cost support. On the other hand, UTC of the West in Nebraska, with only 28,000 access lines, would continue to have its support based on embedded costs until a forward-looking cost model tailored to small companies can be developed. As seen in Section VII., below, in fact, Sprint currently receives no support for nine of the fifteen states at issue here.

ITTA "opposes any change in the manner in which the Commission distinguishes between rural and non-rural areas because it would lead to significant uncertainty for rural carriers and the customers that they serve."[24] ITTA recalls the uncertainty that impacted the non-rural carriers when the Commission established their support mechanism. ITTA's gloom and

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[21] Sprint Comments at 8.

[22] Id. Sprint Florida does receive interstate access support ("IAS" or "CALLS support") which is scheduled to end in 2006.

[23] They do receive CALLS support.

[24] ITTA Comments at 18. The distinction is actually between rural and non-rural *carriers*, not "areas."

doom scenario would have the Commission assume that all of the rural exchanges of the non-rural carriers have deteriorated or have been sold *as a result of the change in universal service support*.[25] And ITTA would also apparently have it that the primary purpose of § 254 is to prevent uncertainty for carriers. This is hardly the case.

At this point, however, it appears that changing the methodology of calculating support, along with combining companies that are owned by the same holding company for the purpose of making that calculation, will have the most significant effect on the high-cost support fund. If the Commission does change the definition, then NASUCA agrees with ALLTEL that "[a]ccess line counts coupled with line density metrics are more likely to be better predictors of costs."[26]

NASUCA's proposal, as explained in the initial comments and detailed below, recognizes that carriers with numerous access lines may serve largely rural territory without having urban centers to balance the costs.[27] Thus, NASUCA proposes a hybrid mechanism for the larger carriers that meet the current definition of rural carrier.[28]

V. NASUCA'S RECOMMENDATION FOR A MORE GRANULAR APPROACH TO ASSESSING CARRIERS' NEEDS FOR HIGH-COST UNIVERSAL SERVICE SUPPORT SHOULD BE ADOPTED.

ITTA "maintains that the current system for calculating ILEC support based on actual costs generally is far more effective at achieving the Act's goals than any of the modifications

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[25] Id.

[26] ALLTEL Comments at 5. See also FW&A Comments at 3-4.

[27] NASUCA's proposal may involve changing the Commission's interpretation of "local operating entity." See NASUCA Comments at 11.

[28] Another aspect that supports leaving the definition unchanged relates to the provisions of 47 U.S.C. 214(e). As proposed elsewhere by NASUCA, the public interest inquiry into the designation of additional eligible telecommunications carriers in rural carriers' territory should be based, in part, upon the level of per-line support provided to the incumbent.

proposed in the public notice would be."[29] This contention ignores the fact that the Commission has held -- and the courts have upheld[30] -- that using forward-looking costs for universal services purposes also meet the Act's goals.[31] Thus the burden must be on the ILEC members of ITTA and other ILECs to show that the use of embedded costs for companies of their size continues to be necessary.

As demonstrated by ITTA's comments,[32] among others,[33] this claim depends on treating all rural carriers alike. Yet the very data cited by ITTA shows the diversity among rural carriers.[34] There is no reason why CenturyTel of Chester, Iowa with its 221 lines; or TDS' Asotin Telephone Company in Oregon, with its 100 lines, should be treated the same as CenturyTel of Washington with its 180,000 lines.[35] Much less, of course, be treated like Sprint Florida with more than 2 million lines, or ALLTEL in Georgia, which serves more than 585,000 access lines, or CenturyTel in Wisconsin, which serves more than 450,000 access lines.[36]

Further, ITTA's data does not show why the smaller areas served by these large companies, like the 5,000 access lines served by ALLTEL's Accucomm in Georgia, should be treated the same as Valley Telephone Company, an independent 5,000 line carrier in Georgia.[37]

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[29] ITTA Comments at 2.

[30] *Qwest Corp v FCC*, 258 F.3d 1191, 1206 (10th Cir. 2001).

[31] The use of forward-looking costs also meets the Act's goal that support be "specific," "predictable" and "sufficient," contrary to FairPoints's allegation. FairPoint Comments at 10-12.

[32] ITTA Comments at 3-4, 7-8.

[33] See also FairPoint Comments at 3, 7.

[34] Id. at 4.

[35] Id.

[36] See Appendix 1.

[37] See discussion in next section.

And ITTA's data specifically do not show why the rural areas served by these large companies should be treated differently from the rural areas served by the RBOCs. Neither do the data presented by CenturyTel, which also lumps all rural carriers together.[38]

ITTA "urges the Joint Board to keep in mind that 'one size' does *not* 'fit all' when considering the appropriate universal service mechanism for rural carriers."[39] NASUCA could not agree more. NASUCA's proposals discussed in the initial comments and herein maintain a realistic differentiation among the various sizes and types of companies serving rural areas.

CenturyTel states that it "serves some of the poorest rural communities in the nation in the states of Alabama, Arizona, Arkansas, Louisiana, New Mexico, Mississippi and Missouri."[40] As seen below, NASUCA's proposal will not have an impact on CenturyTel in Alabama, Arizona, Mississippi and New Mexico.[41] In Arkansas, Louisiana and Missouri, the CenturyTel carriers will continue to receive support, albeit in reduced amounts, **based on CenturyTel's total costs within each state**. In other CenturyTel states, the carrier will receive no or reduced support.[42]

Rather than attempt to lump all rural carriers together, NASUCA's proposal makes appropriate distinctions among carriers serving rural areas. Another distinction in NASUCA's proposal is to recognize that the conditions under which rural carriers serving Alaska and insular

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[38] CenturyTel Comments at 5.

[39] ITTA at 8 (emphasis in original).

[40] CenturyTel Comments at 6.

[41] In those states, the CenturyTel companies serve fewer than 50,000 access lines.

[42] See Appendix 5.

areas operate make them inappropriate for inclusion in the peer group,[43] or to have the forward-looking costs test applied to them at this time.

VI. STUDY AREAS OWNED BY THE SAME HOLDING COMPANY WITHIN A STATE SHOULD BE COMBINED FOR UNIVERSAL SERVICE PURPOSES.

NASUCA proposed that where a single holding company owns multiple subsidiaries within a state, the study areas of those subsidiaries should be combined in the high-cost mechanism for purposes of determining support. This would mean that the currently-rural subsidiaries of a holding company that has a non-rural subsidiary within a state would be combined with the non-rural study area(s). It would also mean that the access lines of affiliates would be combined in order to determine whether the carrier served 50,000 or more access lines within a state.[44]

Sprint attacks the notion of combining study areas by saying that this "would introduce the very kind of implicit subsidies § 254 intended to eliminate."[45] To the contrary: Combining study areas is perfectly appropriate for assessing the capability of any carrier -- rural or non-rural -- to maintain local rates and services that are reasonably comparable to the rates and services available in urban areas. Local, i.e., intrastate, rates and charges are what are to be supported by the universal service mechanisms. As NASUCA has pointed out on numerous occasions, the goal of § 254 for explicit support is directed only toward interstate support.

Considering the total operations of a single company within a state will eliminate the opportunity for arbitrage and ensure that support flows only to those companies that actually

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[43] See ACS at 4-5; ATA at 2-7, 15; RCA at 25, 7-11.

[44] See Verizon Comments at 2-3, 5.

[45] Sprint Comments at 5; see also CenturyTel Comments at 16; ITTA Comments at 21.

need additional support in order to maintain comparable rates. Currently, local switching support flows to carriers serving less than 50,000 access lines within a study area, regardless of actual switching costs, based on the assumption that small carriers have less ability to attract switch discounts available to larger carriers. Large companies that actually serve more than 50,000 access lines within a state should no longer benefit from this assumption.

Sprint's view actually calls the whole study area concept into question. In order to eliminate the averaging of costs across large areas that Sprint condemns, the Commission would have to determine support on a wire center or even more granular basis, and ignore the low costs that actually exist in urban areas or other low-cost areas served by the same company.

The same problem exists with ITTA's complaint that a broader cost measurement "would produce the irrational result that two areas with similar costs would receive entirely disparate levels of support depending solely on whether a holding company or a stand-alone ILEC served the area."[46] As seen with the non-rural mechanism, the key issue is not whether a specific area served by a specific company has high costs, but whether that company -- taken as a whole -- needs support in order to ensure that rates in that specific area are reasonably comparable to urban rates. Combining study areas, whether on a single company basis or on a holding company basis, provides adequate assurance of the ability to achieve comparability, and is hardly irrational.

Referring to one of its subsidiaries in Arizona, Citizens says that a proposal to treat holding companies as a whole would discriminate against the subsidiaries "solely on the basis of

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[46] ITTA Comments at 20. ITTA's concern that statewide averaging would allow a competitor to target profitable areas while receiving support based on the ILEC's average costs (id.) is addressed by changing the method for calculating CETC support (as disused below), which ITTA itself supports. Id. at 33-34.

the existence of a large affiliated telephone company more than 2,000 miles away."[47] Citizens is apparently responding to the proposal that all subsidiaries of a holding company within the United States be combined for USF purposes. As previously explained, NASUCA's proposal is more limited and more rational, calling for the combination of all study areas under common ownership within a state. Thus, NASUCA's proposal puts Navajo -- the subsidiary referred to by Citizens, with its 22,000 access lines -- into the forward-looking cost category because of the existence of the other two Citizens affiliates in *Arizona*, with their 144,000 access lines. Under NASUCA's cost study, Citizens in Arizona would lose $11.5 million dollars in HCLS and $3.4 million in LSS on an annual basis. Citizens should not be entitled to this largesse when a similar carrier that had 166,000 access lines in the same state as a single company would not likely receive it similar levels of support.[48]

FairPoint cites its widely-separated small companies in Colorado and Illinois as reasons why study areas should not be combined.[49] These FairPoint states are not impacted by NASUCA's proposal. On the other hand, FairPoint overlooks its close-knit territory in the Florida panhandle (three "independent" study areas operating under the same name) which would see a reduction, not elimination, of support under NASUCA's proposal.[50]

Although there is no question that many rural companies receiving support under the current universal service funding mechanism have unique characteristics,[51] there is a distinct

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[47] Citizens Comments at 2.

[48] It appears that Citizens' fear of a $53 million loss of support (id. at 4) is based on a loss of all the support the company currently receives.

[49] FairPoint Comments at 17-18.

[50] FairPoint serves 52,984 access lines within its three study areas in Florida. Combining these three study areas would eliminate $685,730 in annual local switching support. See Appendix 5.

[51] ITTA Comments at 3.

group of rural companies that are similar to the current non-rural companies. First, they are *larger* rural companies, with more than 50,000 access lines; this is obviously even more true for rural carriers with more than 100,000 access lines. Further, one characteristic of many of these companies is their organization into highly diversified holding companies. This introduces increased purchasing power, scale economies resulting from both overhead and operating synergies, and scope economies and market synergies arising from the provision of a highly diverse set of services. For example[52]:

- Alltel has wireless and wireline operations which generated approximately $8 billion in gross revenues for 2003 generated from its wireless, wireline local, and long distance operations. Alltel has 3.1 million wireline customers in 15 states.
- CenturyTel has local exchange operations which generated approximately $2.1 billion in Gross revenues for 2003. CenturyTel has approximately 2.3 million access lines in 22 states.
- Citizens Communications, which markets its ILEC services under the Frontier brand name, had $2 billion in revenues from its ILEC operations in 2003. Citizens Communications has 2.3 million switched access lines and 120,000 DSL lines in 23 states.
- Sprint serves approximately 4% of access lines in the United States. Its operations include wireless, wireline, Internet backbone, and long distance. Sprint's local operations served 7.9 million access lines in 18 states. In 2003 Sprint's local operations reported $6.1 billion in *net* operating revenues.

It must be recognized that NASUCA's proposal to combine study areas within a single state that are owned by a single holding company does not automatically disqualify the company from receiving support for that state. Rather, it changes the basis on which support is determined in order to recognize the economies of scale that holding companies should achieve. Thus CenturyTel's statement that "[t]o require carriers to determine their eligibility at the state-wide or holding company-wide level, threatens to reduce or eliminate support to many rural

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[52] Source: Company 2003 Form 10-Ks.

communities, with direct consequences to their economic viability,"[53] misstates the issue and exaggerates the impact. Two CenturyTel states are the most impacted by NASUCA's proposal: CenturyTel in Arkansas would lose $7.48 per line per month in support, and CenturyTel Louisiana would in fact lose $17.73 per line per month in support in all, over a five-year period.[54] Yet looking at these states on a granular level shows the problem with continuing the current system: Why should CenturyTel be allowed to treat its South Arkansas affiliate with its 1,000 access lines separately from its Russellville affiliate with its 113,000 access lines and its Central Arkansas affiliate with its 83,000 access lines, or to ignore the fact that all of CenturyTel's Arkansas companies total 264,000 access lines?[55] Equally, why should CenturyTel in Louisiana be able to treat its over 100,000 access lines as nine separate study areas?[56]

CenturyTel cites its isolated territories in Idaho (serving less than 6,000 lines) and Texas (serving about 45,000 access lines) as study areas that should not be combined.[57] NASUCA's proposal would not impact the CenturyTel carriers[58] in those states. By contrast, the CenturyTel territories in Arkansas and Louisiana are quite different.[59] As is Wisconsin.[60]

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[53] CenturyTel Comments at 4.

[54] See Appendix 5. CenturyTel says that "in some of CenturyTel's rural markets the loss of USF support and local switching support would result in rate increases in excess of $16 per month." CenturyTel Comments at 15. As noted elsewhere, this assumes that the CenturyTel affiliates in Louisiana, for example, would be entitled to dollar-for-dollar recovery of the lost support.

[55] See Appendix 1.

[56] Id.

[57] CenturyTel Comments at 14.

[58] See Appendix 1.

[59] Id.

[60] See http://psc.wi.gov/telecom/newsinfo/xbndmap/document/smlmap03.pdf.

USTA says that "[g]enerally, when a carrier has multiple study areas within a state, the study areas are not geographically contiguous and the operations for providing service in each study area are separate from each other study area in the state."[61] The flaw in USTA's argument can be seen by looking at the telecom exchange map of Ohio.[62] As is clear from that map, Sprint, Verizon and even SBC Ohio serve many non-contiguous areas in the state. Under USTA's theory, each of those non-contiguous areas should be treated as a separate study area.

The reality is that all service areas owned by a single company within a state are operated as a single entity, with unified control and management. Maintenance of separate study areas is a regulatory fiction continued only to maximize support flowing to the single point of ownership. The Joint Board should end this regulatory arbitrage by combining all study areas under common ownership within a state for purposes of determining federal universal service support.

VII. DETERMINING UNIVERSAL SERVICE SUPPORT IN AREAS SERVED BY RURAL CARRIERS

As its fundamental request, the Joint Board sought comment "on how to determine universal service support in areas served by rural carriers after the end of the RTF [Rural Task Force] plan on June 30, 2006."[63] NASUCA originally proposed that over the five years following the end of the RTF plan, rural carriers with 50,000 or more access lines (calculated as discussed above) should be transitioned to a forward-looking cost test for determining high-cost support.[64] NASUCA's proposal has been revised so that only the largest rural carriers, with more

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[61] USTA Comments at 8.

[62] See http://www.puc.state.oh.us/pucogis/statemap/phone_a.pdf.

[63] *RHCPN*, ¶ 18.

[64] Similar dividing lines are proposed by CTIA (at 22), Nextel (at 7), SureWest (at 5) and Verizon (at 2, 4).

than 100,000 access lines within a state, will be transitioned to forward-looking costs. In addition, during the same period, the Commission should study the operations of smaller carriers with a view to adopting a forward-looking cost test for those carriers at a later time.

Many rural carriers object to any move away from the use of embedded costs to determine universal service support.[65] However, most rural carriers would not be affected by NASUCA's proposal, other than having to assist in a study of the feasibility of using forward-looking costs for the smallest carriers.[66] For example, FairPoint objected to determining rural carriers' support based on forward-looking costs.[67] FairPoint operates in 16 states.[68] In only two states -- Florida, where the FairPoint subsidiaries serve 53,000 access lines, and Maine, with 64,000 FairPoint lines -- would FairPoint lose any support under NASUCA's proposal (and that only from the loss of LSS).[69] The decreases for Florida of $1.08 per line per month and for Maine of $2.06 per month[70] would be phased in over five years, or 22 and 41 cents per month respectively.

Appendix 1 to these reply comments lists the carriers impacted by NASUCA's proposal on a state-by-state basis. It includes carriers with 50,000 or more access lines in a single state, whether in a single study area or in multiple study areas.[71] It also combines subsidiary

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[65] E.g., ACS Comments at 10; ALLTEL Comments at 6-9; FairPoint Comments at 2-13; ROTC Comments at 6.

[66] As discussed above, NASUCA also proposed to leave carriers in Alaska and insular areas "as is" for now. This would exempt Alaska and American Samoa, Guam, Hawaii, Micronesia and the U.S. Virgin Islands from the proposed changes.

[67] FairPoint Comments at 3.

[68] Id. at 1.

[69] See Appendix 5.

[70] Id.

[71] The line counts in Appendix 1 are based on the most recent NECA data.

companies of holding companies for the 50,000-line threshold. Table A below crystallizes the information in Appendix 1.

The table shows that most of the rural carriers with 50,000 or more access lines in a state have far more than 50,000 access lines. The table also shows that many of these companies are subsidiaries of large national corporations.

Table A
Rural carriers with 50,000 or more access lines

State (remaining carriers with fewer than 50K lines)	**Rural carriers with 50K or more access lines** (total access lines) (number of companies impacted if more than one) (states where carriers currently receive no HCLS support in **bold**)				
	ALLTEL	**CenturyTel**	**Citizens**	**Sprint**	**Other**
Alabama (24)					Gulf Tel Co - AL[72] (57K)
Arizona (14)			(166K) (3 cos)		
Arkansas (19)	(108K)	(263K) (7 cos)			
California (14)			(155K) (3 cos)		
Colorado (24)		(96K) (2 cos)			
Florida (5)	(95K)			**(2,063K)**	FairPoint (53K) (3 cos)
Georgia (29)	(588K) (7 cos)				
Idaho (17)					Verizon (132K)
Illinois (42)			(126K) (9 cos)		Gallatin River Communi-cations

[72] Also known as Madison River.

					(74K) Consolida-ted: IL (80K)
Indiana (37)				**(271K)**	
Iowa (150)			**(57K)**		ITS (255K) (2 cos)
Kansas (35)				(133K) (3 cos)	
Louisiana (10)		(102K) (9 cos)			

State (remaining carriers with fewer than 50K lines)	**Rural carriers with 50K or more access lines** (total access lines) (number of companies impacted if more than one) (states where carriers currently receive no HCLS support in **bold**)				
	ALLTEL	**CenturyTel**	**Citizens**	**Sprint**	**Other**
Maine (15)					FairPoint (64K) (4 cos)
Michigan (32)		(105K) (4 cos)			
Minnesota (84)			(264K) (3 cos)	**(168K)**	
Missouri (36)	(70K)			(240K)	
Montana (16)		(64K)			
Nebraska (37)	**(266K)**		**(53K)**		
New Jersey (1)				**(222K)**	
New Mexico (13)					Valor (94K) (2 cos)
New York (29)	**(99K) (3 cos)**				
North Carolina (20)	(233K)			**(1,401K) (2 cos)**	**Concord Tel Co (117K)**
Ohio (35)		**(82K)**		**(588K)**	
Oklahoma (37)					Pioneer Tel Coop (54K) **Valor (115K)**
Oregon (28)		(75K)		(71K)	

State (remaining carriers with fewer than 50K lines)	**Rural carriers with 50K or more access lines** (total access lines) (number of companies impacted if more than one) (states where carriers currently receive no HCLS support in **bold**)				
	ALLTEL	**CenturyTel**	**Citizens**	**Sprint**	**Other**
Pennsylvania (25)	(235K)			**(385K)**	**Common-wealth Tel (339K)** **D&E (145K) (3 cos)** **North Pittsburgh Tel (77K)**
South Carolina (12)	(60K)			(97K)	Farmers Telephone (60K) Low Country (75K) (2 cos) Horry Tel Coop (94K) Rock Hill (127K) (4 cos)
Tennessee (17)			(96K) (2 cos)	**(263K)**	TDS (103K)
Texas (47)	(113K) (2 cos)			(384K) (2 cos)	Consolida-ted: TXU (164K) (2 cos) Valor (340K) (2 cos)

State (remaining carriers with fewer than 50K lines)	**Rural carriers with 50K or more access lines** (total access lines) (number of companies impacted if more than one) (states where carriers currently receive no HCLS support in **bold**)				
	ALLTEL	**CenturyTel**	**Citizens**	**Sprint**	**Other**
Virginia (16)				(105K) (2 cos)	
Washington (18)		(84K) (2 cos)		**(83K)**	
West Virginia (6)			(157K) (3 cos)		
Wisconsin (44)		(465K) (17 cos)	(70K) (8 cos)		TDS (151K) (19 cos)

There are 12 states that have no rural carrier with 50,000 or more access lines.[73] There are three jurisdictions that have no rural carrier at all.[74]

Another part of NASUCA's proposal is that in states where rural carriers are affiliated with other non-rural carriers within the state, the rural carriers' study areas will be included as part of the non-rural carriers' study area. This impacts carriers in twelve states.[75] Appendix 4 summarizes the impact on these carriers.

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[73] These states are (with the number of their rural carriers in parentheses): Connecticut (1), Hawaii (1), Maryland (1), Massachusetts (2), Mississippi (18), Nevada (12), New Hampshire (9), North Dakota (24), South Dakota (30), Utah (18), Vermont (9), Wyoming (9).

[74] Delaware, the District of Columbia and Rhode Island.

[75] The states and the affected carriers are: California (Verizon), Idaho (Verizon), Illinois (Verizon), Indiana (Verizon), Kentucky (ALLTEL), Michigan (Verizon), Missouri (CenturyTel), New York (Citizens), Ohio (ALLTEL), Pennsylvania (Verizon), South Carolina (Verizon), and Virginia (Verizon). Some of these carriers would lose LSS, while others would lose HCLS. In Michigan, Ohio and Pennsylvania the combination would not have any impact because the rural carriers receive no support. See Appendix 4. The total savings to the fund would be $15 million. Id.

A. Proposal for carriers with 50,000 or more access lines

1. Introduction

To put NASUCA's detailed proposal into context, a description of the current rural support programs is necessary.[76] Rural carriers can receive high-cost loop support ("HCLS"), local switching support ("LSS"), interstate common line support ("ICLS") for rate of return rural carriers, and interstate access support ("IAS") for price-cap rural carriers.[77]

- HCLS provides support to rural carrier study areas with an average unseparated cost per loop of 115% of the national average, currently set at $240.[78]
- LSS provides support to ILECs with study areas of 50,000 or fewer access lines.
- For rate of return carriers, ICLS recovers the shortfall between allowed common line revenues and carriers' subscriber line charge revenue.[79] For price cap carriers, IAS provides support to carriers that cannot recover permitted revenues from their subscriber line charges.[80]

In 2004, rural carriers will receive some $1.25 billion in HCLS, and $480 million in LSS, for a total of $1.73 billion.[81] Rural carriers will also receive $1.2 billion in IAS and ICLS in 2004.[82]

Non-rural carriers receive support based on the SM. They may also receive ICLS or IAS, depending on whether they are rate-of-return or price cap carriers.

As Dr. Roycroft explains,

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[76] See Monitoring Report, text for section 3.

[77] Rural carriers can also receive "safety net additive" support. Id. at 3-3 and 3-4. This represents only 0.3% of the total high-cost support, and will not be discussed further here.

[78] See Monitoring Report, Table 3.3.

[79] ICLS now includes long-term support ("LTS").

[80] IAS is capped at $650 million per year and is available to CETCs. Thus the more participation by CETCs in the fund, the lower the payments to ILECs.

[81] USAC High Cost Support Projections, Appendix HC01, 4Q04 annualized.

[82] Id. See Section X for a discussion of the need to eliminate ICLS and IAS for all carriers.

> Implementing Universal Service funding is a three-step process: (1) a cost standard must be employed, (2) a benchmark must be determined (which will necessarily specify the level of averaging associated with the process), (3) and funding formulae must be settled upon.[83]

As discussed below, the cost standard proposed by NASUCA is a modification of the SM used for non-rural carriers.[84] Dr. Roycroft's affidavit describes all three steps of the process in NASUCA's proposal.

Even before that, however, it must be determined which companies are going to be studied. In the initial comments, NASUCA provided the rationale for looking at rural carriers with 50,000 or more access lines as a group.[85] Then, those companies must be identified. This is done as summarized in Table 1 above and detailed in Appendix 1.[86]

2. Local switching support

NASUCA's proposal to combine commonly-owned study areas within a state -- as discussed in the initial comments -- will eliminate LSS for those carriers whose combined access line counts exceed 50,000. This will cut some $39 million a year from the high-cost fund, as shown in Appendix 3.

3. Applying the forward-looking cost test

NASUCA now proposes that, for the larger rural carriers with more than 100,000 access lines in a state, the forward-looking costs of loops determined as discussed in Section V.C should be compared to a benchmark of average loop costs for all the rural carriers that have 100,000 or

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[83] Appendix 6, Affidavit of Dr. Trevor R. Roycroft ("Roycroft Affidavit"), ¶ 30.

[84] See Section VII.C.

[85] NASUCA Comments at 16-18.

[86] Line counts were determined per NECA reports. See Roycroft Affidavit, ¶ 35 and Table 1.

more access lines within a state.[87] The support that is currently received these rural carriers is based on costs or revenues from loops -- common line and subscriber line charges respectively. This supports NASUCA's use of loop costs in the forward-looking cost studies that will be applied to rural carriers that have more than 100,000 access lines.[88]

As ALLTEL notes, non-rural carriers have their support based on a nationwide average cost of all non-rural carriers; the use of these lower-cost, primarily urban carriers as a benchmark for rural carriers that lack low-cost areas would be inappropriate.[89] As noted by Dr. Roycroft, the use of the non-rural benchmark for rural carriers would eliminate funding potential for all but two of the rural carriers that have 100,000 or more access lines.[90]

The use of the non-rural benchmark would fail to recognize the differences between non-rural carriers and rural carriers. By contrast, the use of a peer group of the larger rural carriers to establish the benchmark for those larger carriers recognizes the differences among rural carriers, that is, between the larger rural carriers and the smaller rural carriers.[91] The national benchmark can then be compared to the statewide average loop cost for each of the rural companies with 100,000 or more access lines.[92] As Dr. Roycroft states, "This approach provides a benchmarking process which is well suited to the rural companies" under review here.[93]

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[87] The calculation of this benchmark does not include the rural study areas that, under NASUCA's proposal, would become non-rural when combined with their holding companies' non-rural study areas. See footnote 75.

[88] Roycroft Affidavit, ¶ 17.

[89] See ALLTEL Comments at 8.

[90] Roycroft Affidavit, ¶ 47.

[91] Id., ¶ 48.

[92] Id.

[93] Id., ¶ 49.

The current support formulae used for embedded costs for all rural carriers[94] should be used for the larger rural carriers that will be subject to the forward-looking costs test. For example, in study areas with more than 200,000 loops, rural carriers with loop costs up to 115% of the national rural company average loop cost will receive no high-cost support, while 200,000+ loop carriers with costs between 115% and 160% of the national average will receive support for 10% of those costs. The range of values is shown in Table B:

Table B
Support formulae for rural carriers

Cost Range as % of National Average Rural Company Loop Cost	% of Costs within Range Supported
Study Areas with More than 200,000 Loops	
0%-115%	0%
115%-160%	10%
160%-200%	30%
200%-250%	60%
250% and above	75%
Study Areas with 200,000 or fewer Loops	
0%-115%	0%
115%-150%	65%
150% and above	75%

Dr. Roycroft used the results of the modified SM to determine the costs of each of the larger rural companies with more than 100,000 access lines, compared that cost to the national benchmark, and then calculated high-cost loop support based on that comparison.[95] As shown in Appendix 2, the effect of applying NASUCA's proposals is that, for the twenty rural companies with more than 200,000 access lines in a state, ten companies that currently receive no high-cost loop support would still receive no support.[96] Nine companies that currently receive high cost

[94] See Monitoring Report, Table 3.3.

[95] Roycroft Affidavit, ¶ 52 and Table 3.

[96] ALLTEL NE and PA; Commonwealth (PA); Sprint FL, IN, NC, NJ, OH, PA and TN.

loop support would receive no or substantially less support.[97] One company -- ITS -- would receive increased support.[98] The impact on the high-cost fund for these companies will be about an $81 million annual savings.[99]

As shown in Appendix 2, for the nineteen companies with fewer than 200,000 but more than 100,000 access lines, the situation would be as follows: Four companies that currently receive no support would still receive no support.[100] Twelve companies that currently receive support would receive no or substantially less support.[101] And three companies would receive increased levels of support under the forward-looking model.[102] The net impact would be a $65 million savings to the high-cost fund.[103]

This variation from current levels of support is similar to that seen when the non-rural carriers were transitioned to forward-looking costs. Most carriers experienced a decrease in support, but a few carriers received increases in support.[104]

4. Combining NASUCA's proposals

When the savings from moving companies with more than 100,000 access lines to forward-looking costs (Appendix 2) are combined with the savings from LSS (Appendix 3), and

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[97] ALLTEL GA and NC; Century AR and WI; Citizens MN; Sprint MO, TX and VA; Valor TX.

[98] ITS proposes that carriers be allowed to opt-in to forward-looking costs or stay at embedded costs. ITS Comments at 7-13. Giving carriers the option is merely an excuse for carriers to seek maximum support. It is pretty clear how ITS would choose.

[99] Roycroft Affidavit, Table 3.

[100] Concord (NC); D&E (PA); Sprint MN; Valor OK.

[101] ALLTEL TX; Century LA, MI, and WA; Citizens AZ, CA, and WV; Consolidated TX; Rock Hill (SC); TDS TN and WI; Verizon ID.

[102] ALLTEL AR; Citizens IL; Sprint KS.

[103] Roycroft Affidavit, Table 3.

[104] See ITTA at 18. This addresses RICA's concern about "winners and losers…." RICA Comments at 8.

the results of including rural study areas as part of non-rural carriers (Appendix 4), the total savings would be as seen in Appendix 5. That amounts to $200 million on an annual basis.

The Appendices show the impact on each company. ALLTEL states that "preliminary modeling of the impact on ALLTEL's operations in the state of Georgia alone includes a substantial reduction in support…."[105] NASUCA's calculations are consistent with that conclusion: Under a forward-looking cost test, the current amount of support that the ALLTEL companies in Georgia receive (almost $27.5 million annually) would be eliminated. That support amounts to $3.83 per line per month.[106] ALLTEL states that the reduction in support "ultimately would have to be recovered from subscribers.…"[107] Of course, this is not a foregone conclusion. The end result depends on the Georgia ratemaking process and, hopefully, on the level of return earned by the ALLTEL Georgia companies. As discussed below, NASUCA's proposal for a five-year transition will ease the impact on the ALLTEL Georgia companies and their customers. The ultimate question is, however, whether, absent the current $3.75 per line per month in support, the ALLTEL Georgia companies will have rates and services that are no longer comparable to urban rates and services.

ALLTEL Georgia is one example. On the other hand, ALLTEL in North Carolina currently receives less than $14,000 in annual high cost support, which would be eliminated under a forward-looking cost test.[108] The loss of less than six cents per line per month would not likely disadvantage ALLTEL North Carolina or its customers.

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[105] ALLTEL Comments at 3.

[106] See Appendices 1 and 5.

[107] ALLTEL Comments at 3.

[108] See Appendix 2.

As previously mentioned, the impact of NASUCA's proposal will fall mostly on carriers owned by large conglomerates. Table C shows the total impact of NASUCA's proposals on these companies on a national level, compared to each conglomerate's total telephone revenue, as well as the impact on the other companies.

Table C
Holding company impacts of NASUCA's proposals

Holding company[109]	Affected states with decreased/increased/no current support/no change in support	Total affected access lines[110]	Net decrease/ increase in support in affected states (in annual $M)	Net decrease/ increase in support as % of holding company telephone revenues[111] (N/A = not available)
ALLTEL	5/1/3/3	2757K	($25.1)	-1.03%
Century	7/-/1/2	1780K	($80.2)	-3.65%
Citizens	7/1/2/-	1928K	($38.5)	-1.93%
Commonwealth (PA)	-/-/1/-	339K	0	0
Concord (NC)	-/-/1	117K	0	0
Consolidated	1/-/-/1	245K	($5.3)	-2.10%
D&E (PA)	1/-/-/-	145K	($0.38)	-0.34%
FairPoint	2/-/-/-	117K	($2.3)	-1.0%
Farmers Coop (SC)	-/-/-/1	60K	0	0
Horry Coop (SC)	-/-/-/1	94K	0	0
Iowa Network (IA)[112]	-/1/-/-	275K	$3.4	1.86%
Low Country (SC)	1/-/-/-	74K	($0.68)	N/A
Madison River (AL)	-/-/1/-	57K	0	0

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109 Companies with only one affected state are italicized.

110 Does not include access lines in other states not impacted by changes.

111 Source: Company 2003 10Ks or Annual Report; Consolidated source is 3Q04 earnings report annualized.

112 Would see an increase in support.

North Pittsburgh (PA)	-/-/1/-	77K	0	0
Pioneer (OK)	-/-/-/1	54K	0	0
Qwest	1/-/-/-	526K	($0.56)	<0.01%
Rock Hill (SC)	1/-/-/-	145K	($7.0)	N/A
Holding company	Affected states with decreased/increased/no current support/no change in support	Total affected access lines	Net decrease/ increase in support in affected states (in annual $M)	Net decrease/ increase in support as % of holding company telephone revenues (N/A = not available)
Sprint	4/1/8/2	6,754K	($18.8)	-0.13%
TDS	2/-/-/1	268K	($11.7)	-1.36%
Valor	2/-/1/-	549K	($5.0)	-1.01%
Verizon	6/-/2/-	17,689K	($8.0)	-0.02%

On a state level, there are twenty-three jurisdictions where NASUCA's proposals have no impact on funding levels; this includes jurisdictions that have no rural carrier or no rural carrier with more than 50,000 combined access lines.[113] These jurisdictions will benefit from the reduction in universal service funding paid by their residents.

The remaining twenty-eight jurisdictions will see an impact, if only as a result of combining study areas. As previously noted, some carriers will see an increase in support as a result of the transition to forward-looking costs; most affected carriers will, however, see overall decreases in support.

[113] The jurisdictions are Alabama, Alaska, Connecticut, Delaware, District of Columbia, Hawaii, Maryland, Massachusetts, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Jersey, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Dakota, Utah, Vermont and Wyoming.

5. Transition

Taken all together, the various pieces of NASUCA's proposal adequately recognize the differences between rural carriers and non-rural carriers,[114] but also recognize the differences among rural carriers. ITTA urges caution where any changes to the current levels of support are contemplated.[115] NASUCA agrees, and has thus proposed a five-year transition for the carriers that lose support as a result of moving to forward-looking costs. The five years should allow any carrier losing support ample time to adjust to the loss.

Table D lists, state-by-state, the affected carriers, the total first-year impact on support, and the first-year per-line per-month impact. The other states receive no financial impact, other than the savings their customers will see from decreased universal service payments.

Table D

Impact of Funding Changes per Access Line

State	Company	Year 1 Impact	Access Lines	Year 1 Monthly Impact Per Access Line
ARIZONA	Citizens	($2,974,581)	165,471	($1.50)
ARKANSAS	ALLTEL	1,381,520	107,965	1.07
	CenturyTel	(4,754,248)	264,837	(1.50)
CALIFORNIA	Verizon	(114,219)	4,496,989	(0.00)
	Citizens	(2,885,495)	154,548	(1.56)
COLORADO	CenturyTel	(80,125)	95,889	(0.07)
FLORIDA	FairPoint	(137,146)	52,984	(0.22)
GEORGIA	ALLTEL	(5,484,039)	585,211	(0.78)
IDAHO	Verizon	(935,006)	131,917	(0.59)
	Qwest	(112,156)	525,681	(0.02)
ILLINOIS	Citizens	1,225,240	125,626	0.81

[114] See FairPoint at 3, 7. FairPoint cites to the RTF's discussion of the "Law of Large Numbers" (id. at 7, citing RTF White Paper 4 at 7-8); NASUCA's proposal, which transitions only carriers with 100,000 or more access lines to forward-looking costs, and applies a different forward-looking mechanism than used for the non-rural carriers, adequately addresses the Large Number issue.

[115] ITTA at 10.

	Verizon	(169,734)	806,592	(0.02)
INDIANA	Verizon	(70,857)	961,368	(0.01)
IOWA	ITS	687,963	275,150	0.21
KANSAS	Sprint	763,963	133,430	0.48
KENTUCKY	ALLTEL	(440,505)	561,022	(0.07)
LOUISIANA	CenturyTel	(4,345,954)	102,283	(3.54)
MAINE	FairPoint	(316,359)	63,865	(0.41)
MICHIGAN	CenturyTel	(1,332,484)	105,571	(1.05)
MINNESOTA	Citizens	(426,562)	263,851	(0.13)
MISSOURI	CenturyTel	(317,421)	341,344	(0.08)
	Sprint	(165,286)	239,627	(0.06)
NEW MEXICO	Valor	(522,000)	93,979	(0.46)

Impact of Funding Changes per Access Line

State	Company	Year 1 Impact	Access Lines	Year 1 Monthly Impact Per Access Line
NEW YORK	Citizens	(1,468,807)	784,503	(0.16)
	ALLTEL	(103,649)	99,457	(0.09)
NORTH CAROLINA	ALLTEL	(2,741)	232,584	(0.00)
PENNSYLVANIA	D&E	(75,495)	144,577	(0.04)
SOUTH CAROLINA	Verizon	(162,378)	201,734	(0.07)
	Low Country	(135,698)	74,066	(0.15)
	Rock Hill	(1,394,508)	144,539	(0.80)
TENNESSEE	Citizens	(90,085)	95,972	(0.08)
	Sprint	(130,817)	246,852	(0.04)
	TDS	(700,914)	113,301	(0.52)
TEXAS	ALLTEL	(370,418)	112,972	(0.27)
	Sprint	(4,143,216)	384,171	(0.90)
	Consolidated Comm./TXU	(1,055,838)	164,632	(0.53)
	Valor	(478,241)	340,350	(0.12)
VIRGINIA	Sprint	(82,538)	398,761	(0.02)
	Verizon	(157,612)	3,950,936	(0.00)
WASHINGTON	CenturyTel	(2,254,688)	184,216	(1.02)
WEST VIRGINIA	Citizens	(560,887)	157,084	(0.30)
WISCONSIN	CenturyTel	(2,946,232)	464,965	(0.53)
	Citizens	(522,250)	70,830	(0.61)
	TDS	(1,643,071)	154,342	(0.89)
Totals		**($40,005,574)**	**19,176,044**	**($0.17)**

For twenty-seven carriers, the first-year impact is less than 50¢ per line per month. For ten carriers, the first-year impact is 50¢ to $1 per line per month. For six carriers, the impact is between $1 and $2 per month. Only one carrier would see a first-year impact greater than $2 per month.

NASUCA proposes a further means to ease the transition for the customers of the companies that have a substantial per-line impact. In keeping with the statutory purpose to maintain reasonably comparable rates, NASUCA proposes that if, on a per-line basis, the removal of support will create rates that are not reasonably comparable, the support should not be removed. For this purpose, and again recognizing the rural difference, rates should be deemed to be no longer "reasonably comparable" if they are higher than one standard deviation above the national urban average. It appears that this would be about $27.75.[116]

NASUCA's proposal is a gradual and graduated move away from the current embedded-cost support system for rural carriers with 50,000 or more access lines. The Joint Board should recommend this proposal to the Commission.

B. Proposal for carriers with 50,000 to 100,00 access lines and with fewer than 50,000 access lines

As discussed above, NASUCA has proposed that the only immediate impact on carriers with more than 50,000 but fewer than 100,000 access lines will be the loss of LSS where the combination of study areas within a state brings the carrier above the 50,000 access line threshold that eliminates LSS. Yet the Commission should not waver in its determination to bring these carriers, in addition to those with fewer than 50,000 access lines, to a forward-looking cost standard for support.

Thus NASUCA proposes that the Commission compile the issues raised regarding the use of forward-looking costs for smaller rural companies (those with fewer than 100,000 access lines) in the initial and reply comments. The Commission should then actively work to address those issues -- perhaps with the assistance of a reconvened Rural Task Force. This approach would, of course, be significantly different from the Commission's approach to the forward-looking tests applied to the non-rural carriers.

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[116] See *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order, FCC 03-249 (rel. October 27, 2003), ¶ 81. These rates include the SLC. In 03-249, the Commission created a "safety valve" for non-rural carriers that allowed states to apply for additional support if, despite federal and state support, the rural rates for non-rural carriers exceeded two standard deviations of the national average urban rate.

One goal of this process should be combining the disparate legacy support mechanisms into a single mechanism. Other than IAS/ICLS, non-rural carriers receive support only from the high-cost model.[117]

ALLTEL notes that, according to the Rural Task Force, under the existing methodology 52 states and territories are eligible for support, but if the methodology used for non-rural carriers were applied to all carriers only 16 states would be eligible for support.[118] Under NASUCA's proposal, Alaska and insular areas and carriers with fewer than 50,000 access lines would remain unchanged (at least for five years). No state would lose all support; only the largest rural carriers in 20 states would lose some or all of their current support. Indeed, carriers in eight states would see increased support.

C. Estimating Forward-Looking Economic Costs

Many of the rural carriers attack the use of forward-looking costs for determining high-cost support.[119] As Dr. Roycroft explains in his affidavit, however, "Application of a forward-looking economic-cost-based funding approach for these companies is desirable from an economic and policy perspective."[120] Application of forward-looking costs builds an incentive structure into universal service, rewarding efficiency.[121] And use of forward-looking costs is

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[117] As explained below, the Commission should consider phasing out IAS and ICLS.

[118] ALLTEL Comments at 8, citing RTF White Paper # 4 at 6. Indeed, as noted elsewhere, Dr. Roycroft found that the use of an unchanged SM and benchmark would eliminate support for all but five of the companies with 50-000 or more access lines. Roycroft Affidavit, ¶ 47.

[119] See, e.g., ACS Comments at 10, ITTA Comments at 7, JSI Comments at 13-14, NTCA Comments at 2, OPASTCO Comments at 7.

[120] Roycroft Affidavit, ¶ 3.

[121] Id.; see also id., ¶¶ 4-5.

necessary in an environment of emerging competition.[122] Further, as Dr. Roycroft discusses at length, the use of so-called "actual" costs is inappropriate in this context.[123]

Dr. Roycroft also explains how the Commission has already addressed, and dismissed, most of the criticisms of the use of the SM for determining support levels.[124] As Dr. Roycroft states, "[W]hile improvements could be made to the FCC SM, the model provides the best available method for estimating forward-looking costs in the local exchange."[125] Dr. Roycroft's work specifically addresses one of the key issues, the vintage of customer location data.[126]

Dr. Roycroft also notes that many of the criticisms of the SM "confuse forward-looking cost modeling with the separate issues of cost benchmarking, cost averaging, and the application of funding formulae…. The FCC SM is entirely independent of the construction of appropriate benchmarks and funding formulae for rural LECs."[127]

NASUCA's proposal focuses on loop costs, as explained in Dr. Roycroft's affidavit.[128] Currently, loop costs are the basis of rural high-cost support for carriers with more than 50,000 lines. These larger rural carriers do not receive LSS.

The current non-rural model measures all forward-looking costs, including loops, switching and transport. But the current non-rural model provides support only when the carrier's costs exceed two standard deviations from the average. As explained in Dr. Roycroft's

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[122] Id., ¶¶ 3, 6.

[123] Id., ¶¶ 7-13.

[124] Id., ¶¶ 22-24.

[125] Id., ¶ 25.

[126] Id., ¶ 26-29.

[127] Id., ¶ 31.

[128] Id., ¶¶ 17, 19.

affidavit, the switching and transport portions of the SM become less reliable the smaller the carrier, particularly because the SM does not reflect the network architecture of many smaller carriers.[129]

TDS asserts that "no progress has been made in developing -- and there is no evidence that it would be possible to develop -- a workable, forward-looking rural cost model that would be 'specific, predictable and sufficient … to preserve and advance universal service' in rural, insular, and high-cost areas."[130] It does not appear that anyone has actually attempted in the last few years to develop such a mechanism. Perhaps this is because the attempt to create a single model to fit all rural carriers was doomed. But that does not end the issue.

NASUCA proposed that the FCC's Synthesis Model ("SM") be used to assess costs for *larger* rural carriers, as it is used for non-rural carriers, with some modifications.[131] One modification is to use updated line counts.[132] Otherwise, key inputs are adjusted to reflect rural carriers' costs, not those of non-rural carriers.[133]

Sprint says that "for FLEC to be estimated accurately, it is necessary for the cost calculation to include all the factors that cause variations in costs…."[134] Of course, no cost model can capture all such variations; the search for universal service support, however it is modeled, can only provide rough justice. Sprint specifies only "purchase prices for outside plant

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[129] Id., ¶ 18.

[130] TDS at 1-2 (no citation provided for internal quotation). See also FairPoint at 13.

[131] As seen below, in only one state (Tennessee, where it serves a total of 103,000 access lines) does TDS fall into this category.

[132] Roycroft Affidavit, ¶ 35.

[133] See id., ¶ 36-40. One "adjustment" is to remove the adjustment that was originally made to transform rural data for the non-rural companies. Id., ¶ 36.

[134] Sprint Comments at 2.

materials" as a factor that varies significantly depending on the size of the company that is doing the purchasing.[135] NASUCA's cost modeling addresses purchasing power and volume discounts (or, more precisely, *lack* of both for smaller carriers) into the inputs used in the model.[136]

Sprint also indicates that it is "unaware of *any* set of national inputs that could be used in any cost model or costing tool -- including the FCC's Synthesis Model -- that is capable of adequately capturing these cost drivers for all rural companies."[137] Under NASUCA's proposal, of course, it is not necessary for cost modeling to work for *all* rural carriers; just the larger ones, that tend to be part of national corporations like Sprint.[138]

Sprint's proposal is to compare the costs of rural rate-of-return companies to the costs of rural price cap companies.[139] Sprint alleges that this would "captur[e] the spirit, if not the letter, of the FCC's desire to move rural carriers toward the use of forward-looking costs."[140] NASUCA's proposal, unlike Sprint's, captures the *letter* of the Commission's desire.

NASUCA had proposed that an "outlier" analysis be done for carriers that have 50,000 or more access lines.[141] Under NASUCA's revised proposal, the outliers would be in the 100,000 and up access line group. The proposed five-year transition will ensure that outliers will not see a sudden decrease (or increase) in support. The transition period will provide time for the

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[135] Id.

[136] Roycroft Affidavit, ¶ 36.

[137] Sprint at 3 (emphasis in original).

[138] See the table in Section VII., above. Dr. Roycroft's Affidavit discusses how he addressed certain limitations in the available data that have "an insignificant impact on the overall results." Roycroft Affidavit, ¶¶ 41-43.

[139] Sprint at 4.

[140] Id.

[141] NASUCA Comments at 30.

analysis, which could look at whether results for companies of similar size and geographic description result in outliers that have costs that are very high compared to group averages.

Again, Appendix 2 shows the projected impact for each carrier of applying the forward-looking cost test to rural carriers with 100,000 or more access lines, including combining study areas within a state. Appendix 5 combines this change with the NASUCA proposals on LSS and combining rural carriers with their non-rural affiliates within a state. these three changes.

VIII. THE COMMISSION SHOULD MODIFY SECTION 54.305 OF ITS RULES REGARDING TRANSFERRED EXCHANGES.

In the initial comments, NASUCA did not comment on Section 54.305 of the Commission's rules, regarding transferred exchanges, but reserved the right to address this issue in reply. After reviewing the other comments dealing with this issue, NASUCA proposes as follows:

On a going-forward basis, if a carrier purchases another carrier's study area, the purchased territory should maintain its current measure of support for five years. After five years, the purchased study area should be merged with the other study areas under common ownership within the same state for purposes of calculating universal service support. Thus, for example, if an under-100,000 access line study area is purchased by an over-100,000 access line carrier, for five years the purchased study area will have its support based on embedded costs. After five years, however, the purchased area will be moved to forward-looking costs like the rest of the company.

This will give the purchaser an assurance that the current support will continue for a definite time. It will not, however, allow the purchaser to take advantage in perpetuity of the small size of the purchased study area.[142] On the other hand, this change will not stand as a barrier to the purchase of larger companies by other rural carriers. Although the five-year standstill rule will prevent regulatory windfalls, the purchaser will have that assurance that within a reasonable period, support will be based on the purchaser's own costs.

IX. BASIS OF SUPPORT FOR COMPETITIVE ETCS

As expressed in NASUCA's initial comments and well before that,[143] NASUCA's position is that support for competitive ETCs ("CETCs") should be based on the CETC's forward-looking cost. This should apply whether the ILEC in whose territory the CETC is operating is rural or non-rural; it should also apply, consistent with NASUCA's proposal here, whether the rural ILEC's support is based on embedded cost (as with rural ILECs with fewer than 100,000 access lines) or on forward-looking costs (for rural carriers with 100,000 or more access lines).

In recognition of the public interest and to prevent subsidizing competition for competition's sake, however, support for CETCs should be capped at the level provided to the ILEC.[144] Again, that would be the ILEC's cost whether calculated under the Commission's SM and benchmark for non-rural carriers, under NASUCA's proposal for larger rural carriers, or under the embedded cost model that will remain available to smaller rural carriers.[145]

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[142] This dispels Citizens' concern (at 3) that reducing levels of support promote the divestiture of study areas where support is reduced.

[143] NASUCA Comments at 32-37.

[144] See SBC Comments at 3.

[145] As the Commission knows, NASUCA also supports limiting support to a single line per household, and limiting the designation of CETCs in areas where the ILEC receives support amounting to more than $20 per line per month.

Many of the incumbent rural carriers support limiting CETC support to the CETCs' own costs.[146] This is understandable: For competitive reasons, the ILECs would prefer to minimize the support that goes to their competitors. Yet there are more important reasons, principally among which is the fact that universal service support should not be used to subsidize competition.

Some say that the CETCs' embedded costs should be used.[147] SBC accurately demonstrate why CETCs' support should be based on their forward-looking costs.[148] It seems clear that the supporters of using CETC embedded costs do so in hopes of retaining support for ILECs based on *their* embedded costs.

Support should be used to ensure that services in rural areas are reasonably comparable to those available in urban areas. Supporting the CETC based on the embedded costs of the ILEC has little or nothing to do with the statutory goal.

X. THE COMMISSION SHOULD IGNORE CERTAIN PROPOSALS, BUT MUST MOVE FORWARD ON OTHERS

Many of the commenters have included issues not particularly germane to this discussion. For example, Sprint's proposal is that the best way to control the size of the fund would be to increase rural rates.[149] This previously-expressed Sprint theme is hypocritical. First, many companies like Sprint have agreed to proposals that contain the cost of basic service while

[146] See, e.g., ITTA Comments at 32-33, NTCA Comments at 7, RICA Comments at 2. .

[147] See, e.g., ITCI Comments at 10; OPASTCO Comments at 12.

[148] SBC Comments at 5-7.

[149] Sprint at 6-7.

allowing rates to rise for optional service.[150] And Sprint itself receives CALLS support -- such as in Florida[151] -- that does not depend on the level of local rates at all.

Likewise nonsensical is Verizon's proposal that, if treating larger rural carriers under the non-rural supporting cost mechanism "results in decreased levels of support, mid-sized carriers should be permitted to recover the funding difference directly from their end-user customers through a federal line-item charge or other comparable means."[152] Verizon would bypass any state ratemaking authority in the recovery of the support.[153] Equally importantly, the assumption that any carrier has a right to dollar-for-dollar replacement of lost universal service support has no foundation in law or public policy.

The same principle applies to ICLS and IAS. Both mechanisms were ostensibly created to replace implicit universal service support contained in interstate access charges with explicit support. IAS was established in May 2000 for price cap carriers, both non-rural and rural.[154] ICLS was established in November 2001 for rate-of-return carriers, again both non-rural and rural.[155]

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[150] In the Matter of the Application of United Telephone Company of Ohio d/b/a Sprint For Approval of an Elective Alternative Form of Regulation Pursuant to Chapter 4901:1-4, Ohio Admin. Code, PUCO Case No. 02-2117, Opinion and Order (October 3, 2003), available at http://dis.puc.state.oh.us/cgi-bin/CMWebCGI.exe?ItemID=D5SW5IYWQYKQ4Y@K.

[151] Sprint at 8.

[152] Verizon Comments at 13.

[153] Id.

[154] *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-volume Distance Users, Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962 ("CALLS Order").

[155] *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service*, Second Report and Order and further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, 16 FCC Rcd 19613 (2001) ("MAG Order").

The main thing differentiating ICLS and IAS from HCLS and LSS is that ICLS and IAS were designed to allow ILECs to recover revenues lost as a result of reduction of interstate access charges.[156] Thus neither ICLS nor IAS have any connection to the ILECs' costs, or necessarily impact whether the ILECs' local rural rates are reasonably comparable to urban rates, or whether they are affordable, for that matter.

GCI asserts that this phase of this proceeding must be limited to addressing HCLS and LSS.[157] NASUCA agrees, but urges the Commission to tee the IAS/ICLS issue up posthaste.

Another item the Commission needs to act on expeditiously is deciding to support a single line per household, consistent with NASUCA's recommendations, rather than supporting multiple lines of multiple carriers for each household. And the Commission should also adopt a public interest test for the designation of CETCs that limits the number of ETCs in areas that receive high levels of high-cost support.

XI. CONCLUSION

The Commission should continue the deliberate transition to basing all high-cost support on forward-looking costs by requiring rural carriers serving 100,000 or more access lines to move to forward-looking costs over a five-year period. Part of that transition involves refining the areas for which access lines are to be totaled. During that five years, the Commission should also study how to apply a forward-looking cost test to the smallest carriers. The Commission should also base competitive carriers' support on those carriers' costs.

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[156] CALLS Order, ¶ 196; MAG Order, ¶ 120.

[157] GCI Comments at 2-3.

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